



State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2005

JENNIFER M. GRANHOLM
Governor

MARY A. LANNOYE
State Budget Director
Office of the State Budget

MICHAEL J. MOODY, CPA
Director
Office of Financial Management

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Page

Title page.....	i
Table of Contents	ii
Letter of Transmittal.....	iv
Certificate of Achievement.....	viii
State Organizational Structure.....	ix
Principal State Officials.....	x

II. FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	16
Governmental Fund Financial Statements	
Balance Sheet	20
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	23
Proprietary Fund Financial Statements	
Statement of Net Assets	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets	27
Statement of Cash Flows.....	28
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets.....	32
Statement of Changes in Fiduciary Net Assets	33
Component Unit Financial Statements	
Statement of Net Assets	36
Statement of Activities	38
Index for Notes to Financial Statements	40
Notes to Financial Statements	41
Required Supplementary Information Other Than Management's Discussion and Analysis	
Budgetary Comparison Schedule - Major Governmental Funds.....	90
Budgetary Comparison Schedule - Budget-to-GAAP Reconciliation	92
Notes to Required Supplementary Information – Budgetary Reporting	93
Information About Infrastructure Assets Reported Using the Modified Approach	94
Combining and Individual Fund Statements and Schedules – Non-Major Funds	
Governmental Funds	
Balance Sheet - By Fund Type	100
Statement of Revenues, Expenditures and Changes in Fund Balances - By Fund Type.....	101
Special Revenue Funds – By Classification	
Balance Sheet	102
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	103
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.....	104
Special Revenue Funds - Transportation Related:	
Combining Balance Sheet.....	108
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	110
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.....	112
Special Revenue Funds - Conservation, Environment, and Recreation Related:	
Combining Balance Sheet.....	118
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	120
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.....	122

Special Revenue Funds - Regulatory and Administrative Related	
Combining Balance Sheet	128
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	130
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	132
Special Revenue Funds - Other State Funds	
Combining Balance Sheet	138
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	140
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	142
Debt Service Funds	
Combining Balance Sheet	148
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	150
Capital Projects Funds	
Combining Balance Sheet	154
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	155
Permanent Funds	
Combining Balance Sheet	158
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	159
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	160
Proprietary Funds	
Enterprise Funds	
Combining Statement of Net Assets	164
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	165
Combining Statement of Cash Flows	166
Internal Service Funds	
Combining Statement of Net Assets	168
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	170
Combining Statement of Cash Flows	172
Fiduciary Funds	
Pension (and Other Employee Benefit) Trust Funds	
Combining Statement of Fiduciary Net Assets	176
Combining Statement of Changes in Fiduciary Net Assets	178
Private Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets	182
Combining Statement of Changes in Fiduciary Net Assets	183
Agency Funds	
Combining Statement of Fiduciary Net Assets	185
Combining Statement of Changes in Assets and Liabilities	186
Component Units	
Authorities	
Combining Statement of Net Assets	190
Combining Statement of Activities	192
State Universities	
Combining Statement of Net Assets	196
Combining Statement of Activities	198

III. STATISTICAL SECTION

Schedule of Revenue and Other Financing Sources - General and Special Revenue Funds	204
Schedule of Revenue and Other Financing Sources - General Fund	206
Source and Disposition of General Fund Authorizations	208
Source and Disposition of General Fund/General Purpose Authorizations	210
Revenue, Bond Proceeds, and Capital Lease Acquisitions - General and Special Revenue Funds	212
Schedule of Expenditures by Function - General and Special Revenue Funds - State Funds	214
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Fund Expenditures and Transfers	216
Net General Obligation Bonded Debt Per Capita	217
State Building Authority Bonded Debt Per Capita	219
Debt Service Coverage - Comprehensive Transportation Fund Related Bonds	220
Debt Service Coverage - State Trunkline Fund Related Bonds	222
Economic and Social Data	228
Index of Funds and Component Units	230
Acknowledgements	232



STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

OFFICE OF THE STATE BUDGET
LANSING

MARY A. LANNOYE
DIRECTOR

December 28, 2005

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2005.

INTRODUCTION TO THE REPORT

Responsibility: The Office of the State Budget, Office of Financial Management, prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: As required by State statute, we have prepared the financial statements contained in the SOMCAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Report: The SOMCAFR is divided into three major sections: introductory, financial, and statistical:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provide an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component

units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.

- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.

Internal Control Structure: The Office of the State Budget is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State Employees' Deferred Compensation Funds, the State Employees' Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Office of the State Budget relies upon the controls in place at the various State departments and agencies.

The Management and Budget Act requires each principal department to appoint an internal auditor and to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

The discretely presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

Independent Auditors: The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and 10 of the State's universities), the larger pension and other employee benefit trust funds, and the Unemployment Compensation funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2005 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2005 are fairly presented in accordance with GAAP and issued unqualified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act of 1984. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies and component unit authorities, and result in separately issued audit reports.

Management's Discussion and Analysis (MD&A): GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Michigan was admitted to the Union as the 26th state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: The Executive Branch consists of 19 principal departments. Sixteen principal departments are headed by commissions and/or directors appointed by the elected governor. Two principal departments, Attorney General and State, are headed by elected officials and one, Education, is headed by an elected board.

Judicial Branch: The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the State. The Supreme Court also establishes rules for practice and procedure in all courts.

Legislative Branch: The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of state government operations.

Reporting Entity: The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State's elected officials are financially accountable. The transmittal letter,

MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

Budgetary Reporting and Control: For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue and permanent funds), the State budgets projected revenues and expenditures and calculates fund balance for budgetary purposes in accordance with GAAP. Public Act 431 of 1984, as amended, prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the State to also implement such changes in its budgetary process.

Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget and actual comparative schedules and notes in the SOMCAFR. In addition, subsequent to the publication of the SOMCAFR, the State releases "Statewide Authorization Dispositions", a report providing line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

ECONOMIC CONDITIONS AND OUTLOOK

U.S. Economy: The U.S. economy continues to post solid growth. Over the first eleven months of 2005, employment has risen by an average of 167,000 jobs per month. Monthly U.S. employment now exceeds its pre-recession peak by 1.7 million jobs. Manufacturing employment, however, remains well below its peak – down by nearly one-fifth.

After growing by an estimated 3.6 percent in 2005, real gross domestic product is forecast to grow 3.0 percent in 2006. Light vehicle sales are expected to remain relatively steady with sales estimated at 17.0 million units in 2005 and 16.8 million units in 2006. Unemployment, estimated at 5.1 percent for 2005, is projected to remain at that rate for 2006. The growth in consumer prices, as measured by the consumer price index, is expected to slow slightly from 3.2 percent in 2005 to 3.0 percent in 2006.

Michigan Economy: Michigan's economy relies heavily on the performance of the manufacturing sector, in general, and the auto industry, specifically. As a result, Michigan economic growth has lagged behind U.S. economic growth.

For 2005, Michigan employment is estimated to have declined by 13,000 jobs (0.3 percent) – the fifth straight year that employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 330,000 jobs. However, there are signs that the Michigan labor market may be improving. Through November 2005, state employment has increased in three of the past four months.

Personal income was up an estimated 4.6 percent and wages and salaries income was up an estimated 3.0 percent in 2005. Both exceeded the increase in consumer prices, as measured by the Detroit consumer price index, which is estimated at 2.7 percent for 2005.

With continued U.S. economic growth, smaller declines in manufacturing sector employment, and improvements in the private non-manufacturing sector, Michigan employment is expected to grow 0.5 percent in 2006, with employment gains averaging about 5,000 jobs per quarter. Michigan personal income and wages and salaries income are projected to rise 5.3 percent and 4.1 percent, respectively, in 2006. Consumer prices are projected to increase 2.5 percent.

MAJOR INITIATIVES AND FUTURE PROJECTS

Education: The State is committed to providing a quality education to all age levels. There are over 160 activities in 12 state departments that support the student achievement goal. Over \$14.9 billion, or 36.2 percent, of the State's total FY 2005-2006 budget is devoted to education. This includes funding for child-care and early childhood learning, K-12 education, support for colleges and universities, higher education financial assistance and adult learning opportunities.

The State continues to place emphasis on learning in the critical preschool years by investing in programs that provide quality early childhood learning, childcare, and parental education. The State has also instituted a program to identify and assist schools that are considered high priority for improvement in academic achievement.

Economy: State government is committed to growing its economy by sustaining and creating business investment and jobs in Michigan. In FY 2005-2006, the State has created the 21st Century Jobs for Michigan Fund, which will invest more than \$2 billion to create thousands of new jobs and diversify the State's economy. The fund will be used to invest in new technologies that will drive Michigan's economy into the future, with the focus on four high-growth areas: the life sciences, advanced manufacturing, alternative energy, and homeland security. In addition, the State has accelerated more than \$600 million in needed road and infrastructure building projects, which will put some 11,000 citizens to work over the next five years.

The State has also provided significant tax relief for businesses. Starting in FY 2005-2006, the tax cuts are expected to save businesses roughly \$600 million over the next four years. The tax cuts are designed to provide immediate relief to Michigan's struggling automotive and manufacturing industry and to make Michigan more attractive to future investors.

Health and Human Services: For Michigan to be a great place to live and work, Michigan must protect the health of its citizens and strengthen families. Cash assistance, social services, and medical services are provided to low-income families, children and individuals to preserve and strengthen Michigan's social safety net. Public health programs and prevention services are available to encourage and support healthy behavior and positive health outcomes. For FY 2005-2006, the two departments primarily responsible for health and human services, the Department of Community Health and Human Services, account for \$14.8 billion, or 35.9 percent, of the overall State budget.

While the State administers a variety of health and human services programs, Medicaid is the most extensive, accounting for \$8.2 billion of the FY 2005-2006 budget.

These funds allow the State to provide health care services for over 1.4 million low-income citizens.

Hometown Security: Protection of Michigan's residents is a top priority and a core function of state government. The State will invest \$2.8 billion in FY 2005-2006 in protecting its citizens.

There are over 92 activities, in 12 departments that support the goal of protecting Michigan's citizens and communities. These range from street-level public safety programs at the Department of State Police, to military preparedness of the Michigan National Guard, to incarceration of the State's most dangerous felons.

Environment: State government is committed to the conservation, protection, management, use, and enjoyment of the State's natural resources for current and future generations. Michigan has 11,000 inland lakes, 36,000 miles of rivers and streams, and 3,000 miles of freshwater shoreline. Numerous park and recreation areas enable Michigan's citizens and visitors to enjoy outdoor recreation in a fun and safe environment on public lands and waters while benefiting the economy. Michigan lands also yield several agricultural products which rank number one nationally in the State's second largest industry – agriculture production.

Efforts to enhance the quality of Michigan's natural environment encompass 195 activities in 6 departments, primarily activities performed by the Departments of Agriculture, Environmental Quality and Natural Resources who will spend approximately \$847.3 million in FY 2005-2006 on these efforts.

Better Government: Making government in Michigan more cost effective and efficient is a primary focus of state government. Better government in Michigan means keeping the budget balanced, providing fast and friendly service to all citizens, cutting red tape, and frugally managing the workplaces, tools and equipment of state government. It also means improving collaboration in order to increase efficiencies, making Michigan more equitable for all residents, and making state government a great place to work.

The State is undertaking a number of initiatives in FY 2005-2006 that will result in administrative efficiencies or cost savings. The largest of these include implementation of the Medicare Prescription Drug Benefit, which is expected to result in \$53.5 million in pension savings; procurement process improvements that are projected to save over \$30 million; and information technology changes that are expected to save over \$10 million.

AWARDS AND ACKNOWLEDGEMENTS

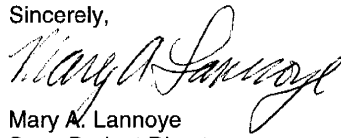
Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 18 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of

Financial Management; the chief financial officers, chief accountants, internal auditors and their staffs from all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed Michigan to maintain its position as a national leader in quality and efficiency for financial reporting.

Sincerely,



Mary A. Lannoye
State Budget Director



Michael J. Moody, CPA
Director, Office of Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

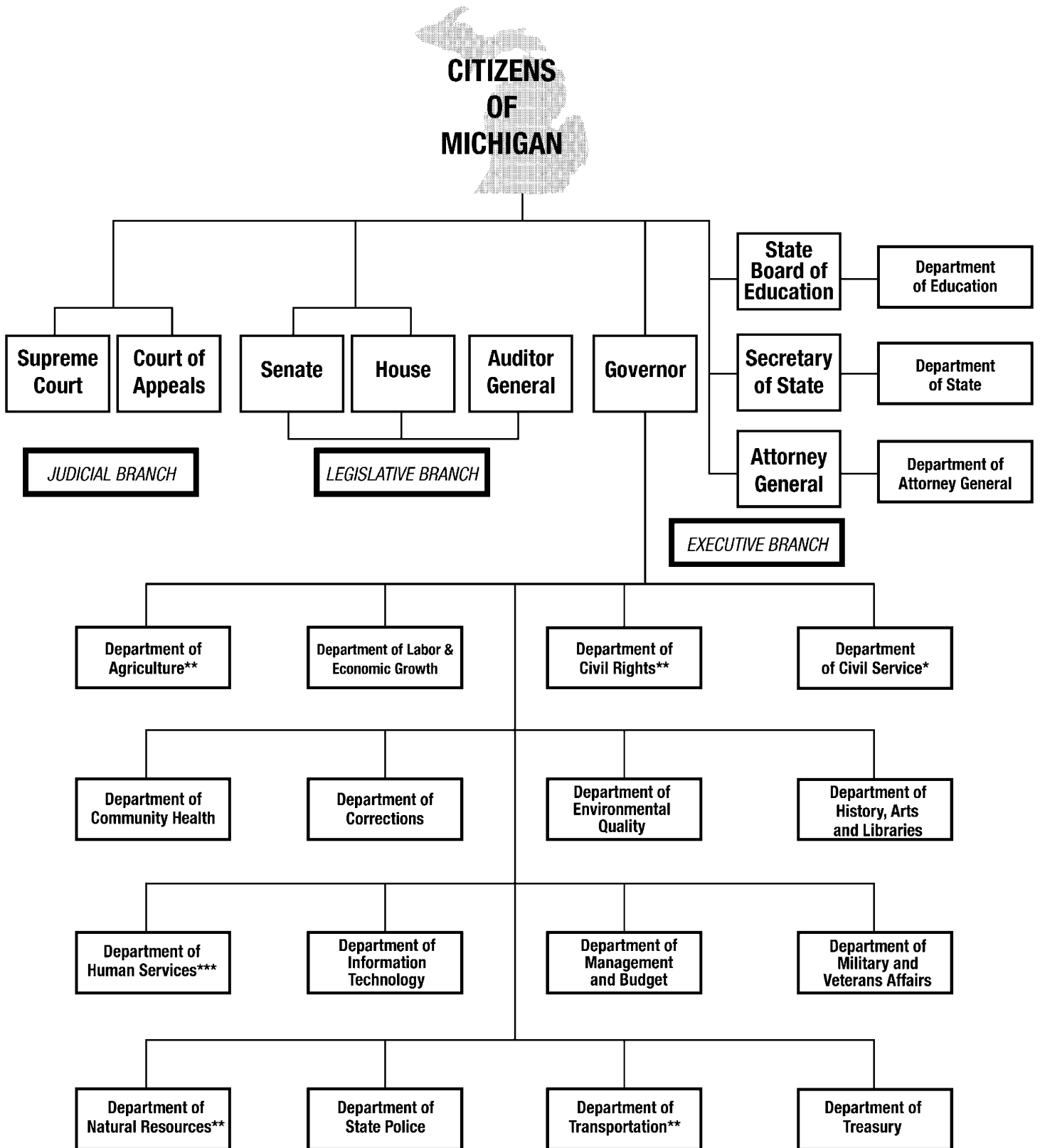
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE



* Has Commission appointed by Governor
 ** Has Commission appointed by Governor, confirmed by Senate
 *** Formerly the Family Independence Agency

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

Supreme Court Justices
Honorable Clifford W. Taylor, Chief Justice
Honorable Michael F. Cavanagh, Justice
Honorable Maura D. Corrigan, Justice
Honorable Marilyn Kelly, Justice
Honorable Stephen J. Markman, Justice
Honorable Elizabeth A. Weaver, Justice
Honorable Robert P. Young, Jr., Justice

LEGISLATIVE BRANCH

Honorable Kenneth R. Sikkema
Majority Leader of the Senate

Honorable Craig DeRoche
Speaker of the House of Representatives

Thomas H. McTavish
Legislative Auditor General

EXECUTIVE BRANCH

Honorable Jennifer M. Granholm, Governor

Honorable John D. Cherry Jr., Lt. Governor

Honorable Mike Cox, Attorney General

Honorable Terri Lynn Land, Secretary of State

State Board of Education
Kathleen N. Straus, President
John C. Austin
Elizabeth W. Bauer
Carolyn L. Curtin
Nancy Danhof
Marianne Yared McGuire
Reginald M. Turner
Eileen Lappin Weiser
Honorable Jennifer M. Granholm (Ex Officio)
Michael P. Flanagan
Superintendent of Public Instruction

Michigan Commission of Agriculture
James E. Byrum, Chair
Douglas E. Darling
Ann Jousma-Miller
James E. Maitland
Dale N. Norton
Mitch Irwin, Director, Department of Agriculture

Civil Rights Commission
Mark Bernstein, Chair
Mohammed Abdrabboh
Albert Calille
Kelvin W. Scott
Tarun K. Sharma
Karen Henry Stokes
Margaret M. Van Houten
Matthew Wesaw
Linda V. Parker, Director, Department of Civil Rights

Civil Service Commission
Susan Grimes Munsell, Chair
F. Thomas Lewand
Sherry L. McMillan
James P. Pitz
James D. Farrell, Director, Department of Civil Service

Janet Olszewski, Director
Department of Community Health

Patricia L. Caruso, Director
Department of Corrections

Steven E. Chester, Director
Department of Environment Quality

William Anderson, Director
Department of History, Arts and Libraries

Marianne Udow, Director
Department of Human Services

Teresa M. Takai, Director
Department of Information Technology

David C. Hollister, Director
Department of Labor and Economic Growth

Lisa Webb Sharpe, Director
Department of Management and Budget

Mary A. Lannoye, State Budget Director
Office of the State Budget

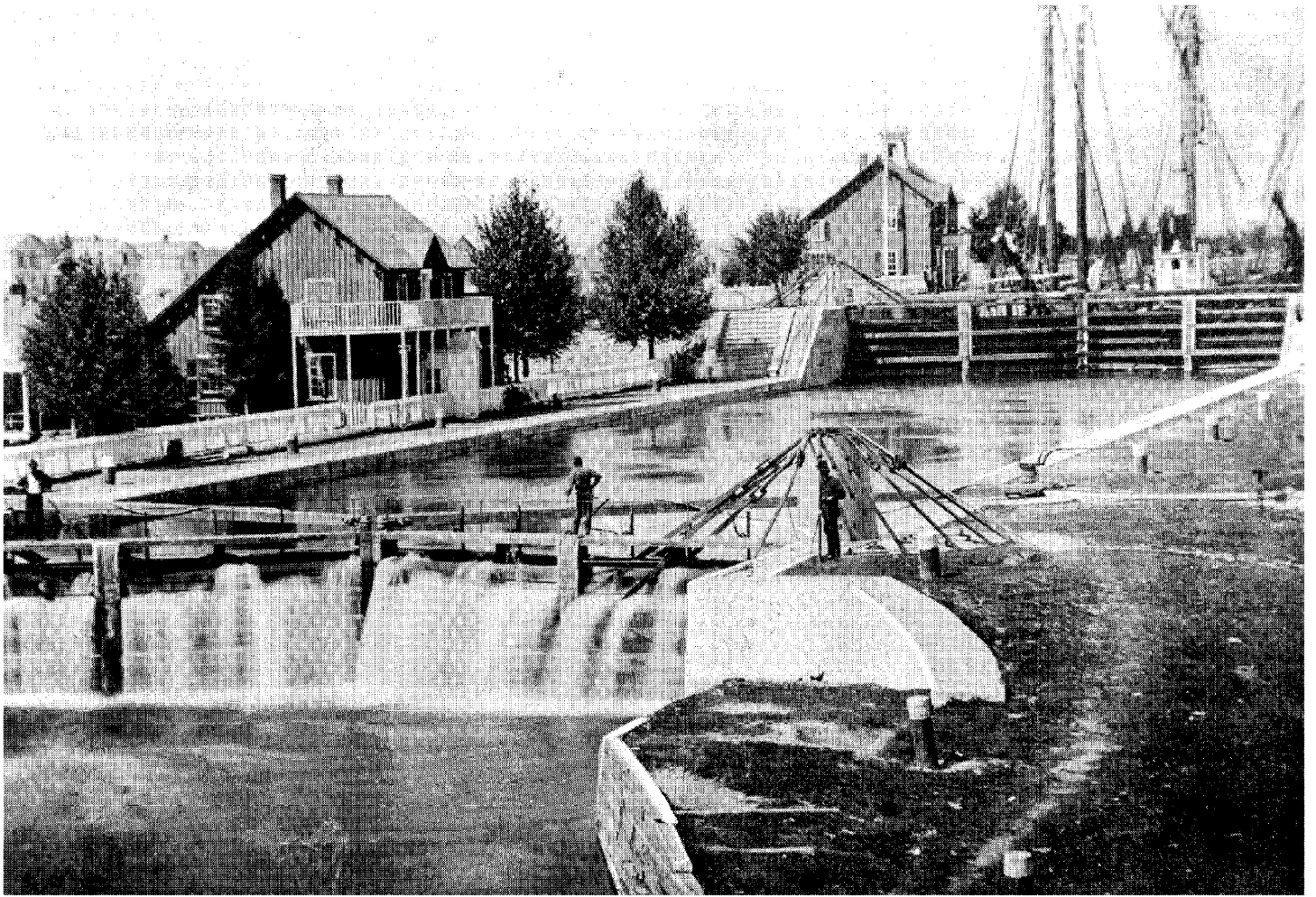
Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs

Natural Resources Commission
Keith J. Charters, Chair
Mary C. Brown
Darnell Earley
Bob Garner
Gerald R. Hall, Jr.
John M. Madigan
Franklin C. Wheatlake
Rebecca A. Humphries, Director
Department of Natural Resources

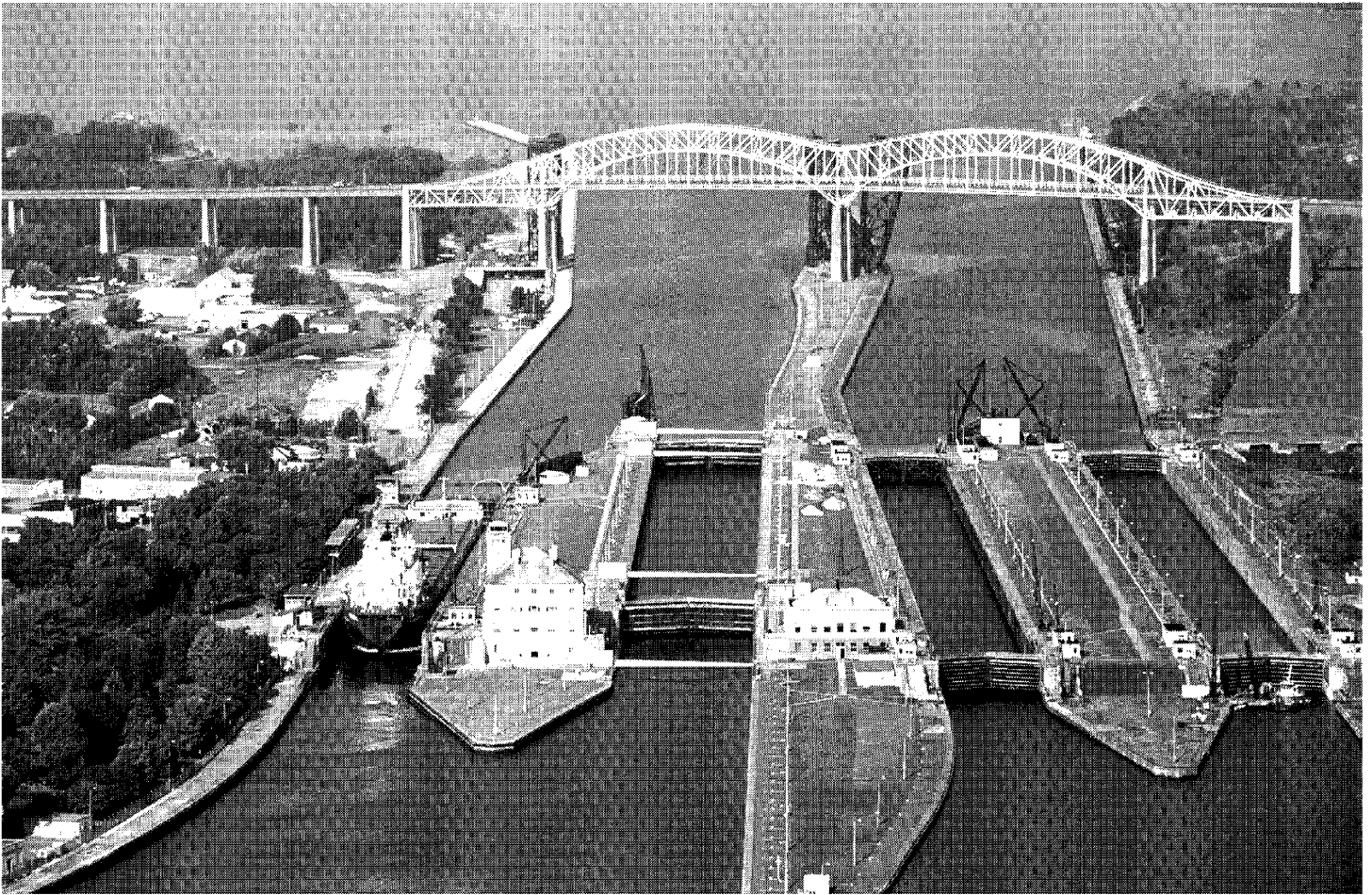
Col. Tadarial J. Sturdivant, Director
Department of State Police

Transportation Commission
Ted B. Wahby, Chair
Linda Miller Atkinson
Robert Bender
Vincent J. Brennan
Maureen Miller Brosnan
James R. Rosendall
Gloria J. Jeff, Director
Department of Transportation

Jay B. Rising, State Treasurer



The Soo Locks shortly after the Civil War



The Soo Locks today.



II FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT MANAGEMENT'S DISCUSSION AND ANALYSIS BASIC FINANCIAL STATEMENTS



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the year ended September 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, Attorney Discipline System, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, State Police Retirement Fund, State Employees' Retirement Fund, Public School Employees' Retirement Fund, Judges' Retirement Fund, State Employees' Defined Contribution Retirement Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Mackinac Bridge Authority, Mackinac Island State Park Commission, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan State Hospital Finance Authority, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Governmental Activities	1.6%	2.0%
Business-Type Activities	97.6%	84.3%
Aggregate Discretely Presented Component Units	92.6%	93.3%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate Remaining Fund Information	93.6%	65.3%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units and funds, are based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
Page 2

supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 12, budgetary comparison schedules and corresponding notes on pages 90 through 93, and information about infrastructure assets reported using the modified approach on pages 94 and 95 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish", with a large, sweeping flourish at the end.

Thomas H. McTavish, C.P.A.

Auditor General

December 28, 2005



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

HIGHLIGHTS

Government-wide:

- At September 30, 2005, the State's assets exceeded its liabilities by \$17.3 billion.
- The State's unrestricted net assets were (\$925.3) million as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.
- The State's total net assets increased by \$59.9 million (0.3 percent) during fiscal year 2004-2005.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.4 billion. Of this amount, \$412.0 million is *unreserved fund balance* and, therefore, available to fund general-purpose expenditures of the respective funds in future years. The remaining \$3.0 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund, and the School Aid Fund, all closed the fiscal year with positive fund balances, totaling a combined \$1.6 billion, with \$1.3 billion reserved for specific purposes such as education and multi-year projects. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$220.5 million and \$2.0 million, respectively. In the School Aid Fund, the entire fund balance of \$98.0 million is reserved for specific purposes.
- The State's proprietary funds reported net assets at year-end of \$963.6 million. This represents a decrease of \$329.1 million (25.5 percent) compared to the prior year-end.

Long-term Debt:

- The State's total long-term debt (bonds and notes payable) as of September 30, 2005 was \$6.3 billion. This is an increase of \$24.4 million since the last fiscal year-end. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (pages 14 and 15) presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets measure whether the State's financial position is improving or not.

The Statement of Activities (pages 16 and 17) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for

some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 16 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 21 and 23) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Certain pension trust funds have been funded in excess of their annual required contribution. These assets are recorded only in the government-wide statements.
- Deferred issue costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 41 of this report.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on page 20 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 100 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* -- Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The

governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.

- **Proprietary funds** -- When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (enterprise and internal service) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs and activities - such as the State's Vehicle and Travel Services. Internal service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary funds** -- The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 32. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets increased \$59.9 million (0.3 percent) over the course of this fiscal year's operations. The net assets of the governmental activities increased \$329.0 million (2.0 percent) and business-type activities had a decrease of \$269.0 million (or 23.0 percent).

Statement of Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 *	2005	2004 *	2005	2004 *
Current and other non-current assets	\$9,558.5	\$ 9,601.8	\$1,956.5	\$2,189.2	\$11,515.0	\$11,791.0
Capital assets	18,955.9	18,746.0	.6	.6	18,956.5	18,746.5
Total assets	28,514.4	28,347.7	1,957.1	2,189.8	30,471.5	30,537.5
Current liabilities	4,084.2	4,359.5	637.0	543.2	4,721.2	4,902.7
Long-term liabilities	8,030.2	7,917.2	418.1	475.6	8,448.3	8,392.8
Total liabilities	12,114.4	12,276.7	1,055.1	1,018.8	13,169.5	13,295.5
Net assets:						
Invested in capital assets, net of related debt	15,245.5	15,014.1	.6	.6	15,246.0	15,014.7
Restricted	2,086.8	1,993.3	894.5	1,164.5	2,981.3	3,157.9
Unrestricted	(932.2)	(936.4)	6.9	5.9	(925.3)	(930.5)
Total net assets	\$16,400.0	\$16,071.1	\$902.0	\$1,171.0	\$17,302.0	\$17,242.1

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 49.

Michigan

The largest component, \$15.2 billion, of the State's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net assets are the next largest component, comprising \$3.0 billion. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The State's unrestricted net assets were (\$925.3) million as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 *	2005	2004	2005	2004 *
Revenues						
Program revenues						
Charges for services	\$1,871.0	\$ 1,801.4	\$ 4,422.1	\$ 4,500.6	\$ 6,293.1	\$ 6,302.0
Operating grants	11,792.1	11,783.5	54.1	76.8	11,846.3	11,860.2
Capital grants	805.6	618.4	-	-	805.6	618.4
General revenues						
General taxes	11,842.6	10,672.9	12.2	12.0	11,854.8	10,684.9
Taxes restricted for educational purposes	10,294.1	9,958.3	-	-	10,294.1	9,958.3
Taxes restricted for transportation purposes	1,995.6	2,077.0	-	-	1,995.6	2,077.0
Unrestricted investment and interest earnings	14.1	9.7	2.8	1.2	16.9	11.0
Miscellaneous	788.8	677.8	.1	-	788.9	677.8
Total revenues	39,403.9	37,599.1	4,491.2	4,590.6	43,895.2	42,189.7
Expenses						
General government	1,877.4	1,748.6	-	-	1,877.4	1,748.6
Education	14,531.4	14,418.9	-	-	14,531.4	14,418.9
Human Services	4,154.8	3,985.9	-	-	4,154.8	3,985.9
Public safety and corrections	2,320.4	2,256.4	-	-	2,320.4	2,256.4
Conservation, environment, recreation, and agriculture	652.3	674.4	-	-	652.3	674.4
Labor, commerce, and regulatory	936.5	920.1	-	-	936.5	920.1
Health services	10,179.7	9,605.2	-	-	10,179.7	9,605.2
Transportation	3,107.0	3,104.8	-	-	3,107.0	3,104.8
Tax expenditures	815.3	702.7	-	-	815.3	702.7
Intergovernmental - revenue sharing	1,112.9	1,305.1	-	-	1,112.9	1,305.1
Interest on long-term debt	287.5	247.0	-	-	287.5	247.0
Liquor Purchase Revolving Fund	-	-	557.4	544.7	557.4	544.7
State Lottery Fund	-	-	1,447.3	1,391.4	1,447.3	1,391.4
Attorney Discipline System	-	-	3.9	4.1	3.9	4.1
Michigan Unemployment Compensation Funds	-	-	1,892.5	2,349.4	1,892.5	2,349.4
Total expenses	39,975.3	38,969.1	3,901.0	4,289.5	43,876.3	43,258.7
Excess (deficiency) Before Contributions and Transfers	(571.3)	(1,370.0)	590.2	301.1	18.9	(1,068.9)
Contributions to permanent fund principal	41.0	30.8	-	-	41.0	30.8
Transfers	859.3	901.6	(859.3)	(901.6)	-	-
Increase (decrease) in net assets	329.0	(437.7)	(269.0)	(600.5)	59.9	(1,038.2)
Net assets – beginning restated	16,071.1	16,508.8	1,171.0	1,771.5	17,242.1	18,280.3
Net assets – ending	\$16,400.0	\$16,071.1	\$902.0	\$1,171.0	\$17,302.0	\$17,242.1

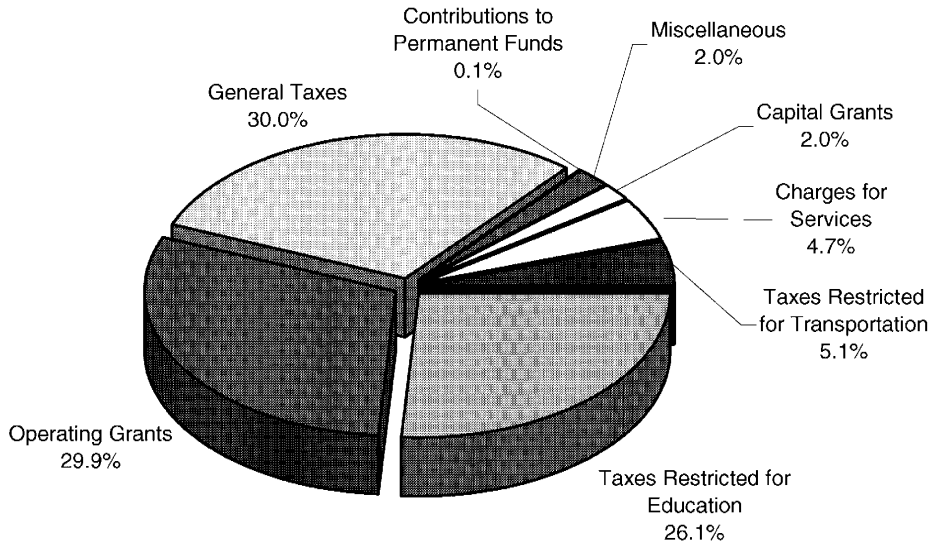
* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 49.

Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities for
Fiscal Year Ending September 30, 2005**

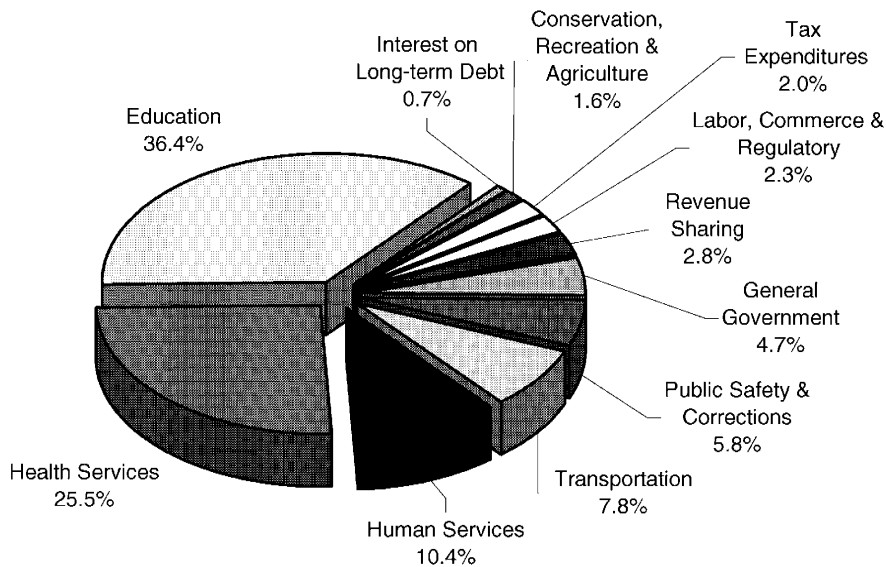
(\$39.4 billion)



The following chart depicts expenses of the governmental activities for the fiscal year:

**Expenses - Governmental Activities for
Fiscal Year Ending September 30, 2005**

(\$40.0 billion)



Business-type Activities

The business-type activities' net assets decreased by \$269.0 million (23.0 percent) during the fiscal year. Factors contributing to these results included:

- The increase in unemployment in the State resulted in the Michigan Unemployment Compensation Funds finishing the fiscal year with a decrease in net assets of \$245.4 million (22.6 percent) to \$842.1 million.
- The State Lottery Fund's net assets decreased by \$24.6 million (32.0 percent), which resulted from a decrease in the market value of investments that Lottery holds to fund future payments due for lottery prizes.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.4 billion. Of this total amount, \$412.0 million constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The General Fund (\$220.5 million) and transportation-related funds (\$171.8 million) comprise a significant portion of the unreserved fund balance. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments, such as capital outlay projects.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2004-2005, the General Fund unreserved fund balance was \$220.5 million and the reserved fund balance was \$1.2 billion. Total fund balance increased during the fiscal year by \$283.6 million (24.2 percent), primarily because tax revenues were higher than anticipated.

General Fund Budgetary Highlights:

During fiscal year 2005, the State was again faced with difficult budget challenges resulting in significant expenditure reductions. In March 2005, Executive Order 2005-7 was issued authorizing expenditure reductions of \$295.1 million and transfers of unexpended balances and excess revenues from restricted revenue sources totaling \$8.2 million to be used as general fund, general purpose revenues.

In addition to the executive order spending reductions, the original budget was amended by various supplemental appropriations and appropriation reductions. The following summarizes the differences between the original and final budget amounts:

- General-purpose tax revenues of \$8.4 billion were \$186.1 million more than the original estimate of \$8.2 billion.
- Restricted revenue inflows of \$14.3 billion were \$215.3 million more than the estimated \$14.1 billion.
- The General Fund received transfers of \$465.1 million from other appropriated funds; the largest transfers were from the Liquor Purchase Revolving Fund and the Counter-Cyclical Budget and Economic Stabilization Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$65.4 million and restricted revenue authorized but not spent of \$7.8 million.

The Department of Human Services finished the year with line item over-expenditures of \$8.0 million. All other agencies finished the year with lapses.

School Aid Fund

Fund balance at September 30, 2005, totaled \$98.0 million, an increase of \$23.9 million (32.3 percent) from the prior year. Revenues and transfers to the fund totaled \$12.5 billion. Expenditures to school districts and other costs increased by \$94.3 million from the previous year and totaled \$12.4 billion.

Counter-Cyclical Budget and Economic Stabilization Fund

Fund balance decreased by \$79.3 from the previous year as a result of the transfer to the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2004-2005, the State had invested \$19.0 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$177.3 million.

Capital Assets as of September 30
(Net of Depreciation, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 *	2005	2004	2005	2004 *
Land	\$3,178.5	\$ 3,113.7	\$ -	\$ -	3,178.5	\$ 3,113.7
Land improvement	83.6	86.5	-	-	83.6	86.5
Buildings and improvements	2,118.0	2,041.8	-	-	2,118.0	2,041.8
Equipment	131.1	144.5	.6	.6	131.7	145.0
Infrastructure	12,405.7	12,012.6	-	-	12,405.7	12,012.6
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	17,936.7	17,418.8	.6	.6	17,937.3	17,419.4
Construction in progress	1,019.1	1,327.1	-	-	1,019.1	1,327.1
Total	18,955.9	\$18,746.0	\$.6	\$.6	\$18,956.5	\$18,746.6

The most significant impact on capital assets during the year resulted from the road and bridge construction and repair projects.

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 49.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,557 lane miles of roads and 4,734 bridges (spans in excess of 20 feet).

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to have no more than 30% of roads in poor or very poor condition. The most recent condition assessment, completed for calendar year 2004, indicated that 19.0% of roads were considered poor or very poor.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2004) indicated that the condition of the bridges had improved from the condition reported for 2003. For calendar year 2004, 15.8% of the bridges were assessed as structurally deficient.

The State's fiscal year 2005-2006 capital outlay appropriations projects spending \$228.3 million for new construction and special maintenance projects. In addition, \$460.2 million of unspent capital outlay authorizations that existed at September 30, 2005 is available to spend in fiscal year 2006. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

Long-term Debt: The State, along with the State Building Authority (SBA), a blended component unit of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. More detailed information regarding the State's long-term obligations is presented in Notes 12 and 14 to the financial statements.

Outstanding Bonded Debt as of September 30
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General obligation bonds (backed by the State)	\$1,645.1	\$1,527.5	\$ -	\$ -	\$1,645.1	\$1,527.5
Revenue bonds and notes (backed by specific tax and fee revenues)	4,280.8	3,987.7	-	-	4,280.8	3,987.7
Total	\$5,925.9	\$5,515.2	\$ -	\$ -	\$5,925.9	\$5,515.2

During the year, the State issued general obligation refunding bonds to retire older bonds and to make loans to local school districts, resulting in an increase of \$117.6 million. In addition, the State issued revenue-dedicated bonds to retire grant anticipation notes and to secure more favorable interest rates and reduce certain debt service payments.

Bond Ratings

The State's general obligations are rated AA by Standard & Poors and Aa2 by Moody's.

Limitations on Debt

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15% of undedicated revenues received in the preceding year. In fiscal year 2004-2005 the State issued and repaid short-term borrowing totaling \$1.3 billion.

ECONOMIC CONDITION AND OUTLOOK

Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share along with continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's sub-par employment performance.

For 2005, employment is estimated to have declined by 13,000 jobs (0.3 percent) – the fifth straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 330,000 jobs. However, there are signs the Michigan labor market may be improving. Through November 2005, state employment has increased in three of the last four months.

Personal income was up an estimated 4.6 percent and wages and salaries income was up an estimated 3.0 percent in 2005. Both exceeded the increase in consumer prices, as measured by the Detroit consumer price index, which is estimated at 2.7 percent for 2005.

With continued U.S. economic growth, smaller declines in manufacturing sector employment, and improvements in the private non-manufacturing section, Michigan employment is expected to grow 0.5 percent in 2006, with employment gains averaging about 5,000 jobs per quarter. Michigan personal income and wages and salaries income are projected to rise 5.3 percent and 4.1 percent, respectively, in 2006. Consumer prices are projected to increase 2.5 percent.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of Financial Management website at www.michigan.gov/ofm. You can also contact the office by phone at (517) 373-3029.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-3029.



BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2005

(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash	\$ 7,393	\$ 6,140	\$ 13,533	\$ 542,982
Equity in common cash (Note 5)	1,122,502	70,989	1,193,491	107,429
Taxes, interest, and penalties receivable (Note 6)	4,814,898	-	4,814,898	-
Internal balances	15,132	(15,132)	-	-
Amounts due from component units	44,166	393	44,559	216
Amounts due from primary government	-	-	-	174,653
Amounts due from federal government	848,304	1,218	849,523	34,129
Amounts due from local units	170,635	39,811	210,446	1,007,136
Inventories	44,151	6,572	50,723	17,212
Investments (Note 8)	210,625	726,223	936,848	1,318,384
Securities lending collateral (Note 8)	21,855	409,170	431,025	-
Other current assets	624,570	274,636	899,206	460,419
Total Current Assets	7,924,231	1,520,020	9,444,251	3,662,560
Restricted Assets:				
Cash and cash equivalents	-	-	-	49,368
Investments	-	-	-	346,772
Mortgages and loans receivable	-	-	-	1,800,441
Taxes, interest, and penalties receivable (Note 6)	283,679	-	283,679	-
Amounts due from federal government	10,326	-	10,326	-
Amounts due from local units	710,536	-	710,536	2,613,898
Mortgages and loans receivable	-	-	-	1,542,620
Investments (Note 8)	551,867	420,885	972,752	3,356,171
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,215,422	-	3,215,422	106,120
Buildings, equipment, and other depreciable assets	4,719,180	4,741	4,723,921	4,239,824
Less accumulated depreciation	(2,143,575)	(4,159)	(2,147,735)	(1,533,178)
Infrastructure	12,145,718	-	12,145,718	102,722
Construction in progress	1,019,125	-	1,019,125	87,883
Total capital assets	18,955,870	582	18,956,452	3,003,371
Interest in joint ventures (Note 7)	31,909	-	31,909	-
Other noncurrent assets	45,993	15,600	61,593	294,024
Total Assets	\$ 28,514,411	\$ 1,957,087	\$ 30,471,498	\$ 16,669,225
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 147,086	\$ 1,443	\$ 148,529	\$ 1,548
Obligations under security lending	21,855	409,170	431,025	-
Accounts payable and other liabilities	2,213,233	225,296	2,438,530	279,894
Income tax refunds payable (Note 15)	681,712	-	681,712	-
Amounts due to component units	3,102	-	3,102	-
Amounts due to primary government	-	-	-	46,180
Bonds and notes payable (Notes 12 and 13)	522,117	-	522,117	1,215,397
Interest payable	112,481	-	112,481	119,595
Deferred revenue	126,007	719	126,726	57,612
Current portion of other long-term obligations (Note 14)	256,618	367	256,985	101,737
Total Current Liabilities	4,084,211	636,995	4,721,207	1,821,963
Prize awards payable (Note 14)	-	371,917	371,917	-
Deferred revenue	21,865	-	21,865	2,613
Bonds and notes payable (Notes 12 and 13)	6,079,184	-	6,079,184	7,735,404
Noncurrent portion of other long-term obligations (Note 14)	1,929,156	46,189	1,975,345	1,542,264
Total Liabilities	\$ 12,114,417	\$ 1,055,101	\$ 13,169,518	\$ 11,102,246

The accompanying notes are an integral part of the financial statements.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 15,245,452	\$ 582	\$ 15,246,033	\$ 1,940,459
Restricted For:				
Education	-	-	-	205,728
Construction and debt service	91	-	91	316,717
Public safety and corrections	9,039	-	9,039	-
Conservation, environment, recreation, and agriculture	391,271	-	391,271	-
Health and human services	45,908	-	45,908	-
Transportation	811,241	-	811,241	-
Unemployment compensation	-	842,062	842,062	-
Labor and economic growth	116,096	-	116,096	-
Other purposes	113,545	52,451	165,997	1,620,446
Funds Held as Permanent Investments:				
Expendable	101,210	-	101,210	39,085
Nonexpendable	498,362	-	498,362	204,899
Unrestricted	(932,221)	6,891	(925,330)	1,239,647
Total Net Assets	<u>\$ 16,399,994</u>	<u>\$ 901,986</u>	<u>\$ 17,301,980</u>	<u>\$ 5,566,979</u>

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 1,877,410	\$ 876,151	\$ 51,635	\$ 21,673
Education	14,531,388	4,858	1,383,342	-
Human services	4,154,811	53,400	2,951,412	-
Public safety and corrections	2,320,406	155,683	151,485	-
Conservation, environment, recreation, and agriculture	652,326	269,035	153,849	188
Labor, commerce, and regulatory	936,467	238,229	545,421	-
Health services	10,179,705	72,062	6,160,364	-
Transportation	3,106,993	201,598	394,620	783,718
Tax expenditures (Note 15)	815,300	-	-	-
Intergovernmental-revenue sharing	1,112,931	-	-	-
Interest on long-term debt	287,519	-	-	-
Total governmental activities	39,975,258	1,871,016	11,792,127	805,580
Business-type Activities:				
Liquor Purchase Revolving Fund	557,377	688,928	-	-
State Lottery Fund	1,447,285	2,082,229	20,708	-
Attorney Discipline System	3,856	4,588	-	-
Michigan Unemployment Compensation Funds	1,892,486	1,646,311	33,440	-
Total business-type activities	3,901,003	4,422,057	54,148	-
Total primary government	\$ 43,876,261	\$ 6,293,073	\$ 11,846,275	\$ 805,580
Component Units:				
Authorities:				
Michigan Education Trust	\$ 49,864	\$ 153	\$ 26,934	\$ -
Michigan State Housing Development Authority	519,075	162,217	381,733	-
Michigan Municipal Bond Authority	159,152	102,152	157,528	-
Non-Major	469,908	138,604	248,474	4,625
State Universities:				
Central Michigan University	299,039	195,389	31,399	1,767
Western Michigan University	420,818	257,467	53,959	2,008
Non-Major	1,301,183	756,214	168,125	19,995
Total component units	\$ 3,219,038	\$ 1,612,196	\$ 1,068,152	\$ 28,395

General Revenues:

Taxes:

General:

Sales and use
 Personal income
 Single business
 Other

Restricted For Educational Purposes:

Sales and use
 Personal income
 Education, property, and real estate transfers
 Other

Restricted For Transportation Purposes:

Sales and use
 Gasoline and diesel fuel
 Motor vehicle weight
 Other

Unrestricted investment and interest earnings

Miscellaneous

Contributions to permanent fund principal

Payments from State of Michigan

Transfers

Total general and other revenue, payments, and transfers

Change in net assets

Net assets-beginning-restated

Net assets-ending

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (927,950)	\$ -	\$ (927,950)	\$ -
(13,143,188)	-	(13,143,188)	-
(1,149,999)	-	(1,149,999)	-
(2,013,239)	-	(2,013,239)	-
(229,254)	-	(229,254)	-
(152,818)	-	(152,818)	-
(3,947,280)	-	(3,947,280)	-
(1,727,057)	-	(1,727,057)	-
(815,300)	-	(815,300)	-
(1,112,931)	-	(1,112,931)	-
(287,519)	-	(287,519)	-
(25,506,535)	-	(25,506,535)	-
-	131,551	131,551	-
-	655,652	655,652	-
-	732	732	-
-	(212,734)	(212,734)	-
-	575,202	575,202	-
(25,506,535)	575,202	(24,931,333)	-
-	-	-	(22,777)
-	-	-	24,876
-	-	-	100,527
-	-	-	(78,205)
-	-	-	(70,483)
-	-	-	(107,384)
-	-	-	(356,849)
-	-	-	(510,295)
2,663,226	-	2,663,226	-
5,036,282	-	5,036,282	-
1,934,003	-	1,934,003	-
2,209,052	12,194	2,221,247	-
5,283,583	-	5,283,583	-
2,019,932	-	2,019,932	-
2,236,159	-	2,236,159	-
754,431	-	754,431	-
56,924	-	56,924	-
1,068,565	-	1,068,565	-
863,367	-	863,367	-
6,719	-	6,719	-
14,141	2,784	16,925	84,110
788,809	50	788,859	42,633
41,033	-	41,033	-
-	-	-	670,687
859,260	(859,260)	-	-
25,835,487	(844,232)	24,991,255	797,430
328,952	(269,030)	59,922	287,134
16,071,042	1,171,016	17,242,058	5,279,845
\$ 16,399,994	\$ 901,986	\$ 17,301,980	\$ 5,566,979



GOVERNMENTAL FUND FINANCIAL STATEMENTS



Major Funds

GENERAL FUND

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund is governed by Article 3 of PA 431 of 1984, as amended. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. Additional information regarding the fund is provided in Note 3.

SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools and the intermediate school districts of the State. School aid payments to school districts are based on a statutory formula. Public Act 158 of 2003, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated sixty percent of the collections of sales tax imposed at a rate of 4% and all of the collections of sales tax imposed at the additional rate of 2%; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

Non-Major Funds

Non-major governmental funds are presented, by fund type, beginning on page 100.

Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 6,884	\$ -	\$ -	\$ 291	\$ 7,175
Equity in common cash (Note 5)	-	1,953	-	894,268	896,221
Taxes, interest, and penalties receivable (Note 6)	2,737,912	-	1,964,627	112,359	4,814,898
Amounts due from other funds (Note 17)	1,573,606	-	10,579	888,314	2,472,499
Amounts due from component units	384	-	41,100	2,601	44,085
Amounts due from federal agencies	617,239	-	48,073	182,992	848,304
Amounts due from local units	53,527	-	34,182	82,926	170,635
Inventories	22,795	-	-	6,590	29,385
Investments (Note 8)	-	-	-	210,625	210,625
Securities lending collateral	-	-	-	21,855	21,855
Other current assets	342,732	-	-	256,261	598,993
Total Current Assets	5,355,079	1,953	2,098,562	2,659,081	10,114,674
Taxes, interest, and penalties receivable (Note 6)	234,537	-	47,435	1,707	283,679
Advances to other funds (Note 17)	6,956	-	-	19,783	26,739
Amounts due from federal agencies	10,326	-	-	-	10,326
Amounts due from local units	661,230	-	3,554	45,752	710,536
Investments (Note 8)	-	-	-	551,867	551,867
Other noncurrent assets	1,633	-	-	5,001	6,634
Total Assets	\$ 6,269,760	\$ 1,953	\$ 2,149,551	\$ 3,283,191	\$ 11,704,455
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 90,992	\$ -	\$ 286	\$ 54,186	\$ 145,465
Obligations under security lending	-	-	-	21,855	21,855
Accounts payable and other liabilities (Note 22)	1,397,945	-	124,139	592,985	2,115,069
Income tax refunds payable (Note 15)	681,712	-	-	-	681,712
Amounts due to other funds (Note 17)	819,562	-	1,549,336	129,198	2,498,096
Amounts due to component units	2,996	-	-	106	3,102
Bonds and notes payable	-	-	-	334,177	334,177
Interest payable	-	-	-	883	883
Deferred revenue	1,486,595	-	330,387	260,907	2,077,889
Total Current Liabilities	4,479,803	-	2,004,148	1,394,297	7,878,248
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	19,783	19,783
Deferred revenue	336,564	-	47,435	18,140	402,139
Total Liabilities	4,816,368	-	2,051,583	1,432,220	8,300,171
Fund Balances:					
Reserved fund balance (Note 21)	1,232,856	-	97,968	1,661,495	2,992,318
Unreserved fund balance reported in:					
General Fund	220,537	-	-	-	220,537
Special revenue funds	-	1,953	-	301,274	303,226
Debt service funds	-	-	-	194,586	194,586
Capital projects funds	-	-	-	(349,643)	(349,643)
Permanent funds	-	-	-	43,259	43,259
Total Fund Balances	1,453,393	1,953	97,968	1,850,971	3,404,284
Total Liabilities and Fund Balances	\$ 6,269,760	\$ 1,953	\$ 2,149,551	\$ 3,283,191	\$ 11,704,455

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2005

(In Thousands)

Total fund balances for governmental funds \$ 3,404,284

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. (Note 9)

Land and other non-depreciable assets	3,215,422	
Buildings, equipment, and other depreciable assets	4,250,447	
Infrastructure	12,145,718	
Construction in progress	1,019,125	
Interest in joint ventures	31,909	
Accumulated depreciation	(1,761,747)	18,900,874

Certain tax revenues are earned but not available and therefore are not
reported in the funds. 2,037,535

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds. 302,328

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and telecommunications, to
individual funds. The assets and liabilities of the internal service funds
are included in governmental activities in the Statement of Net Assets. 61,585

Certain pension trust funds have been funded in excess of the annual
required contributions, creating a year-end asset. This asset is not a
current available resource and is not reported in the funds. (Note 10) 1,757

Deferred issue costs are reported as current expenditures in the funds.
However, deferred issue costs are amortized over the life of the bonds
and are included in the governmental activities in the Statement of Net
Assets. 37,545

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the funds. (Note 14)

Capital lease obligations	(389,721)	
Compensated absences	(519,518)	
Workers' compensation	(106,646)	
Litigation	(600,937)	
Net pension obligations	(349,206)	
Other long-term liabilities	(1,164)	(1,967,192)

Long-term bonded debt is not due and payable in the current period and
therefore is not reported in the funds. Unamortized premiums, loss on
refundings, and interest payable are not reported in the funds. However,
these amounts are included in the Statement of Net Assets. This is the
net effect of these balances on the statement. (Note 12)

Bonds and notes payable	(6,097,854)	
Unamortized premiums	(306,291)	
Less deferred loss amount on refundings	137,022	
Accrued interest payable	(111,598)	(6,378,722)

Net assets of governmental activities \$ 16,399,994

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES					
Taxes	\$ 11,698,151	\$ -	\$ 10,242,334	\$ 1,996,478	\$ 23,936,964
From federal agencies	9,424,817	-	1,321,710	1,227,479	11,974,006
From local agencies	107,240	-	-	155,635	262,875
From services	261,786	-	-	3,170	264,956
From licenses and permits	264,559	-	-	158,941	423,501
Special Medicaid reimbursements	467,970	-	-	-	467,970
Miscellaneous	665,918	1,995	62,455	745,009	1,475,377
Total Revenues	22,890,442	1,995	11,626,499	4,286,712	38,805,648
EXPENDITURES					
Current:					
General government	1,146,480	-	-	160,968	1,307,448
Education	2,005,567	-	12,393,232	158,233	14,557,032
Human services	4,120,300	-	-	2,479	4,122,779
Public safety and corrections	2,284,662	-	-	2,790	2,287,452
Conservation, environment, recreation, and agriculture	341,130	-	-	273,809	614,939
Labor, commerce, and regulatory	738,579	-	-	186,297	924,876
Health services	9,957,302	-	-	169,243	10,126,544
Transportation	-	-	-	2,167,888	2,167,888
Tax expenditures (Note 15)	815,300	-	-	-	815,300
Capital outlay	34,597	-	-	1,239,649	1,274,247
Intergovernmental-revenue sharing	1,112,931	-	-	-	1,112,931
Debt service:					
Bond principal retirement	-	-	-	354,711	354,711
Bond interest and fiscal charges	-	-	-	276,216	276,216
Capital lease payments	49,069	-	-	461	49,530
Total Expenditures	22,605,917	-	12,393,232	4,992,744	39,991,894
Excess of Revenues over (under) Expenditures	284,525	1,995	(766,733)	(706,033)	(1,186,245)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	365,164	365,164
Premium on bond issuance	-	-	-	97,857	97,857
Refunding bonds issued	-	-	-	1,528,539	1,528,539
Payment to refunded bond escrow agent	-	-	-	(1,609,886)	(1,609,886)
Capital lease acquisitions	6,778	-	-	-	6,778
Proceeds from sale of capital assets	3,037	-	-	7,606	10,643
Transfers from other funds (Note 19)	465,174	-	831,722	1,627,187	2,924,083
Transfers to other funds (Note 19)	(475,940)	(81,300)	(41,091)	(1,465,161)	(2,063,492)
Total Other Financing Sources (Uses)	(952)	(81,300)	790,631	551,306	1,259,686
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	283,574	(79,305)	23,898	(154,726)	73,440
Fund Balances - Beginning of fiscal year	1,169,819	81,258	74,070	2,005,697	3,330,844
Fund Balances - End of fiscal year	\$ 1,453,393	\$ 1,953	\$ 97,968	\$ 1,850,971	\$ 3,404,284

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

Net change in fund balance - total governmental funds \$ 73,440

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.
(Note 9)

Land and other non-depreciable assets	64,810	
Buildings, equipment, and other depreciable assets	203,987	
Infrastructure additions	398,406	
Construction in progress	(308,024)	
Loss on disposal of capital assets	(7,869)	
Accumulated depreciation	<u>(133,929)</u>	217,382

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. 3,723

Increase in equity interest in joint ventures (Note 7) 436

Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. 205,751

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (60,035)

Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments. (Note 12)

Bond proceeds and premiums received	(1,991,560)	
Repayment of bond principal	354,711	
Payment to refunded bond escrow agent	1,609,886	
Accrued interest and amortization	406	
Deferred issue costs	11,358	
Other	<u>66</u>	(15,132)

Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.
(Note 14)

Net pension obligation	(57,460)	
Capital lease payments	21,580	
Compensated absences payments	(51,566)	
Litigation settlements and payments	(9,295)	
Workers' compensation	(154)	
Other	<u>282</u>	(96,613)

Change in net assets of governmental activities \$ 328,952

The accompanying notes are an integral part of the financial statements.



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Public Act 239 of 1972 established the State Lottery Fund and created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1990-91. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net assets balance represents the unrealized cumulative gain or loss on investments, as required by GASB Statement No. 31.

Revenues and related expenses are recognized in the period during which the related drawings are held. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Bureau of Worker's and Unemployment Compensation within the Department of Labor and Economic Growth: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund.

The Michigan Employment Security Act Contingent Fund was created by P.A. 535 of 1982 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. Public Act 224 of 1989 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

A portion of the asset "Amounts due from other funds" and the liability "Amounts due to other funds" represent receivables and payables between the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund.

Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 164.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 168.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 5,075	\$ 1,063	\$ 6,140	\$ 219
Equity in common cash (Note 5)	6,200	7,312	57,477	70,989	226,281
Amounts due from other funds (Note 17)	-	5,007	-	5,007	16,956
Amounts due from component units	-	393	-	393	82
Amounts due from federal agencies	-	1,218	-	1,218	-
Amounts due from local units	-	39,811	-	39,811	-
Inventories	3,358	-	3,214	6,572	14,765
Investments (Note 8)	93,378	630,976	1,869	726,223	-
Securities lending collateral	409,170	-	-	409,170	-
Other current assets	55,615	211,634	7,387	274,636	24,498
Total Current Assets	567,723	901,426	71,010	1,540,159	282,800
Investments (Note 8)	420,885	-	-	420,885	-
Capital Assets (Note 9):					
Buildings and equipment	4,019	-	722	4,741	468,733
Allowance for depreciation	(3,475)	-	(684)	(4,159)	(381,828)
Total capital assets	544	-	38	582	86,905
Other noncurrent assets	-	15,600	-	15,600	-
Total Assets	\$ 989,151	\$ 917,026	\$ 71,048	\$ 1,977,225	\$ 369,706
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 790	\$ -	\$ 653	\$ 1,443	\$ 1,621
Accounts payable and other liabilities (Note 22)	141,941	21,639	61,525	225,105	64,503
Amounts due to other funds (Note 17)	10,712	9,505	113	20,330	8,809
Deferred revenue	-	434	285	719	7,649
Obligations under security lending (Note 8)	409,170	-	-	409,170	-
Current portion of other long-term obligations (Note 14)	195	-	172	367	91,449
Total Current Liabilities	562,808	31,578	62,748	657,134	174,031
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	-	6,956
Prize awards payable	371,917	-	-	371,917	-
Noncurrent portion of other long-term obligations (Note 14)	1,975	43,386	828	46,189	127,134
Total Liabilities	936,700	74,964	63,575	1,075,239	308,120
NET ASSETS					
Invested in capital assets, net of related debt	\$ 544	\$ -	\$ 38	\$ 582	\$ 70,376
Restricted For:					
Unemployment compensation	-	842,062	-	842,062	-
Other purposes	52,451	-	-	52,451	3,137
Unrestricted	(544)	-	7,434	6,891	(11,928)
Total Net Assets	\$ 52,451	\$ 842,062	\$ 7,472	\$ 901,986	\$ 61,585

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
OPERATING REVENUES					
Operating revenues	\$ 2,082,229	\$ 1,646,311	\$ 693,516	\$ 4,422,056	\$ 1,536,815
Total Operating Revenues	2,082,229	1,646,311	693,516	4,422,056	1,536,815
OPERATING EXPENSES					
Salaries, wages, and other administrative	252,778	-	56,632	309,410	499,307
Interest expense	-	-	-	-	2
Depreciation	137	-	15	152	43,185
Purchases for resale	-	-	503,364	503,364	63,749
Purchases for prison industries	-	-	-	-	15,060
Lottery prize awards	1,154,105	-	-	1,154,105	-
Premiums and claims	-	-	134	134	923,443
Unemployment benefits	-	1,834,509	-	1,834,509	-
Other operating expenses	-	57,977	1,087	59,064	49,953
Total Operating Expenses	1,407,019	1,892,486	561,233	3,860,737	1,594,698
Operating Income (Loss)	675,210	(246,174)	132,283	561,319	(57,884)
NONOPERATING REVENUES (EXPENSES)					
Specific tax on spirits	-	-	12,194	12,194	-
Interest revenue	2,541	-	2,618	5,159	-
Investment revenue (expense) - net	18,167	33,440	165	51,773	-
Other nonoperating revenues	-	-	51	51	220
Amortization of prize award obligation discount	(34,252)	-	-	(34,252)	-
Interest expense	(6,014)	-	-	(6,014)	(881)
Other nonoperating expense	-	-	-	-	(265)
Total Nonoperating Revenues (Expenses)	(19,558)	33,440	15,029	28,911	(925)
Income (Loss) Before Capital Contributions and Transfers	655,652	(212,734)	147,312	590,230	(58,809)
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Capital contributions from other funds	-	-	-	-	35
Transfers To:					
School Aid Fund	(667,579)	-	-	(667,579)	-
Other funds	(12,719)	(32,646)	(146,315)	(191,681)	(1,261)
Total transfers to other funds	(680,298)	(32,646)	(146,315)	(859,260)	(1,261)
Total Capital Contributions and Transfers In (Out)	(680,298)	(32,646)	(146,315)	(859,260)	(1,226)
Change in net assets	(24,646)	(245,380)	996	(269,030)	(60,035)
Total net assets - Beginning of fiscal year	77,098	1,087,442	6,476	1,171,016	121,620
Total net assets - End of fiscal year	\$ 52,451	\$ 842,062	\$ 7,472	\$ 901,986	\$ 61,585

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	ACTIVITIES -- INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies	\$ -	\$ 58,757	\$ -	\$ 58,757	\$ -
Receipts from customers	2,089,745	1,526,539	688,927	4,305,211	1,545,348
Membership dues	-	-	4,050	4,050	-
Payments to employees	(12,523)	-	(14,758)	(27,281)	(174,505)
Payments to suppliers	(48,360)	-	(541,871)	(590,231)	(659,598)
Payments to prize winners	(1,258,585)	-	-	(1,258,585)	-
Payments for commissions to retailers	(191,175)	-	-	(191,175)	-
Claims paid	-	(1,900,320)	-	(1,900,320)	(717,113)
Other receipts	-	38,202	534	38,736	21
Other payments	-	-	(1,584)	(1,584)	(7,357)
Net cash provided (used) by operating activities	\$ 579,103	\$ (276,822)	\$ 135,299	\$ 437,580	\$ (13,203)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Other nonoperating revenues	\$ -	\$ -	\$ 51	\$ 51	\$ -
Loans or loan repayments from other funds	-	-	-	-	19,201
Loans or loan repayments to other funds	-	-	-	-	(19,013)
Specific tax on spirits	-	-	12,194	12,194	-
Transfers to other funds	(679,602)	(46,434)	(146,315)	(872,351)	(1,248)
Other receipts	-	-	-	-	(5)
Net cash provided (used) by noncapital financing activities	\$ (679,602)	\$ (46,434)	\$ (134,071)	\$ (860,107)	\$ (1,065)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ (168)	\$ -	\$ -	\$ (168)	\$ (18,993)
Interest paid	-	-	-	-	(188)
Capital lease payments (including imputed interest expense)	-	-	-	-	(12,741)
Proceeds from sale of capital assets	-	-	-	-	130
Net cash provided (used) by capital and related financing activities	\$ (168)	\$ -	\$ -	\$ (168)	\$ (31,792)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities	\$ (123,873)	\$ -	\$ -	\$ (123,873)	\$ -
Proceeds (purchases) from sale and maturities of investment securities	222,099	293,596	(540)	515,155	-
Interest and dividends on investments	2,541	33,440	2,618	38,600	-
Income from securities lending activities	6,344	-	-	6,344	-
Expenses from securities lending activities	(6,014)	-	-	(6,014)	-
Net cash provided (used) by investing activities	\$ 101,097	\$ 327,036	\$ 2,078	\$ 430,211	\$ -
Net cash provided (used) - all activities	\$ 430	\$ 3,780	\$ 3,307	\$ 7,517	\$ (46,060)
Cash and cash equivalents at beginning of year	4,981	8,606	54,580	68,168	270,939
Cash and cash equivalents at end of year	\$ 5,412	\$ 12,387	\$ 57,887	\$ 75,685	\$ 224,879

The accompanying notes are an integral part of the financial statements.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 5,075	\$ 1,063	\$ 6,140	\$ 219
Equity in common cash	6,200	7,312	57,477	70,989	226,281
Warrants outstanding	(790)	-	(653)	(1,443)	(1,621)
Cash and cash equivalents at end of year	<u>\$ 5,412</u>	<u>\$ 12,387</u>	<u>\$ 57,887</u>	<u>\$ 75,685</u>	<u>\$ 224,879</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 675,210	\$ (246,174)	\$ 132,283	\$ 561,319	\$ (57,884)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	137	-	15	152	43,185
Amortization of prize award obligation discount	(34,252)	-	-	(34,252)	-
Other reconciling items	135	-	-	135	-
Net Changes in Assets and Liabilities:					
Inventories	392	-	287	679	139
Other assets (net)	(386)	(26,531)	40	(26,877)	5,023
Accounts payable and other liabilities	193	(4,433)	3,084	(1,157)	(3,665)
Prize awards payable	(62,326)	-	-	(62,326)	-
Deferred revenue	-	316	(410)	(94)	-
Net cash provided (used) by operating activities	<u>\$ 579,103</u>	<u>\$ (276,822)</u>	<u>\$ 135,299</u>	<u>\$ 437,580</u>	<u>\$ (13,203)</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ 35
Cost of capital assets acquisitions financed by capital leases	-	-	-	-	8,991
Capital lease liabilities entered into during the year	-	-	-	-	(8,991)
Increase (decrease) in fair value of investments	(24,646)	-	-	(24,646)	-
Transfers to other funds (accrual)	(10,579)	(5,963)	-	(16,542)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(265)
Total noncash investing, capital, and financing activities	<u>\$ (35,226)</u>	<u>\$ (5,963)</u>	<u>\$ -</u>	<u>\$ (41,189)</u>	<u>\$ (230)</u>



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 176.
Private Purpose Trust Funds, page 182.
Agency Funds, page 185.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash	\$ 48	\$ 1,372	\$ 69,477
Equity in common cash (Note 5)	113,556	116,406	3,685
Receivables:			
From participants	161,243	-	-
From employers	509,505	-	-
Interest and dividends	457	219	-
Due from other funds (Note 17)	33,855	-	-
Due from component unit	316	-	-
Sale of investments	488	-	-
Investments at Fair Value (Note 8):			
Short term investments	1,775,090	-	11,051
Bonds, notes, mortgages, and preferred stock	8,358,207	14,282	33,789
Common stock	24,849,090	109	-
Real estate	3,937,522	-	-
Alternative investments	5,871,095	-	-
International investments	6,203,092	-	-
Mutual funds	1,990,933	916,484	-
Pooled investment funds	1,916,859	-	-
Money market funds	182,683	-	-
Guaranteed funding agreements	-	150,458	-
Securities lending collateral (Note 8)	2,870,289	2,475	-
Other current assets	-	6,763	1,856
Other noncurrent assets	-	-	379,745
Total assets	<u>\$ 58,774,330</u>	<u>\$ 1,208,568</u>	<u>\$ 499,603</u>
LIABILITIES			
Warrants outstanding	\$ 8,341	\$ 1,961	\$ 42
Accounts payable and other liabilities	93,619	7,140	84,641
Amounts due to other funds (Note 17)	3	-	1,079
Obligations under security lending	2,870,289	2,475	-
Other long-term liabilities	-	-	413,840
Total liabilities	<u>\$ 2,972,252</u>	<u>\$ 11,576</u>	<u>\$ 499,603</u>
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, other employee benefits, and other purposes	<u>\$ 55,802,077</u>	<u>\$ 1,196,993</u>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 51,685,705	\$ -	
Postemployment health-care benefits	587,677	-	
Other employee benefits (Note 16)	3,528,696	-	
Other purposes	-	1,196,993	
Total net assets held in trust for benefits and other purposes	<u>\$ 55,802,077</u>	<u>\$ 1,196,993</u>	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS		
Contributions:		
From participants	\$ 663,821	\$ 278,534
From employers	2,176,652	-
From clients	-	40,797
From gifts, bequests, and endowments	-	659
From other plans	6,941	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	4,912,344	54,926
Interest, dividends, and other	1,521,243	35,075
Securities lending income	73,520	36
Less Investment Expense:		
Investment activity expense	68,740	4,048
Securities lending expense	69,511	35
Net investment income (loss)	6,368,856	85,953
Escheated property	-	91,562
Miscellaneous income	3,216	2,750
Total Additions	9,219,486	500,255
DEDUCTIONS		
Benefits paid to participants or beneficiaries	3,639,022	40,244
Medical, dental, and life insurance for retirants	1,060,411	-
Refunds and transfers to other systems	25,861	-
Amounts distributed to clients, claimants, or third parties	-	75,516
Administrative expense	87,899	12,671
Transfers to other funds	70	-
Total Deductions	4,813,263	128,431
Net increase (decrease)	4,406,223	371,825
Net assets - Beginning of fiscal year	51,395,854	825,168
Net assets - End of fiscal year (Note 10)	<u>\$ 55,802,077</u>	<u>\$ 1,196,993</u>
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 3,998,044	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	60,286	-
Net increase (decrease) in assets held in trust for other employee benefits	347,893	-
Net increase (decrease) in assets held in trust for other purposes	-	371,825
Total net increase (decrease)	\$ 4,406,223	\$ 371,825

The accompanying notes are an integral part of the financial statements.



COMPONENT UNIT FINANCIAL STATEMENTS



Major Funds

MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a prepaid tuition program. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The amount the purchaser is required to pay is based on several factors, among them are tuition costs, the child's age and grade in school, anticipated investment earnings, tuition rate increases, and the type of contract purchased.

Public Act 316 of 1986 created MET. MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the Act provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the Act. The Act and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Public Act 346 of 1966, as amended, created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

MICHIGAN MUNICIPAL BOND AUTHORITY

Public Act 227 of 1985, as amended, created the Michigan Municipal Bond Authority (MMBA) to assist local units of government in reducing their financing costs for public improvements, deficit reduction, and various other municipal purposes. MMBA pools the borrowing needs of various units and issues limited obligation debt; the proceeds of which are used to purchase local unit obligations or to make loans to local units.

MMBA is governed by a board of trustees consisting of the State Treasurer, two appointees of the Governor, and five state residents appointed by the Governor, with the advice and consent of the Senate.

MMBA and the Department of Environmental Quality serve as co-administrators of a special State Revolving Fund, which is reported as part of MMBA. The State Revolving Fund assists governmental units in financing water quality projects. Federal government and State matching provides financing for this activity along with investment interest earnings and/or other available funds. MMBA's separately issued financial reports provide a separate accounting of this fund's activities.

CENTRAL MICHIGAN UNIVERSITY AND WESTERN MICHIGAN UNIVERSITY

Central Michigan University and Western Michigan University are the two major universities of the ten universities included in this report. They are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore, defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

Non-Major Funds

The non-major component unit - authorities are presented beginning on page 190.

The non-major component unit - State universities are presented beginning on page 196.

STATEMENT OF NET ASSETS
COMPONENT UNITS
 SEPTEMBER 30, 2005
 (In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 79,543	\$ 113,336	\$ -	\$ 107,485
Equity in common cash (Note 5)	-	-	30,022	77,406
Amounts due from component units	-	-	-	-
Amounts due from primary government	1,501	-	673	2,163
Amounts due from federal government	-	-	-	20,004
Amounts due from local units	-	-	1,006,903	-
Inventories	-	-	-	680
Investments (Note 8)	-	185,212	597,584	429,539
Other current assets	22,699	54,376	40,094	248,207
Total Current Assets	103,744	352,924	1,675,277	885,484
Restricted Assets:				
Cash and cash equivalents	-	-	-	5,648
Investments	-	-	-	2,059
Mortgages and loans receivable	-	1,754,750	-	-
Amounts due from local units	-	-	2,613,898	-
Mortgages and loans receivable	-	-	-	1,508,809
Investments (Note 8)	834,011	551,509	1,084,811	371,446
Capital Assets:				
Land and other non-depreciable assets	-	-	-	8,551
Buildings, equipment, and other depreciable assets	-	-	-	59,749
Less accumulated depreciation	-	-	-	(27,737)
Infrastructure	-	-	-	102,722
Construction in progress	-	-	-	-
Total capital assets	-	-	-	143,285
Other noncurrent assets	39,130	41,989	152,818	18,454
Total Assets	\$ 976,885	\$ 2,701,171	\$ 5,526,804	\$ 2,935,185
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 1,548
Accounts payable and other liabilities	5	28,116	4,241	37,911
Amounts due to primary government	-	-	41,521	1,672
Bonds and notes payable (Note 13)	-	192,590	966,165	24,364
Interest payable	-	9,322	80,435	12,083
Deferred revenue	-	-	761	2,011
Current portion of other long-term obligations	86,004	-	-	4,898
Total Current Liabilities	86,008	230,027	1,093,125	84,487
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 13)	-	1,428,564	2,844,541	2,308,429
Noncurrent portion of other long-term obligations	908,742	446,201	55,869	55,712
Total Liabilities	\$ 994,750	\$ 2,104,792	\$ 3,993,534	\$ 2,448,627
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 137,123
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	268,047	-	13,936
Other purposes	-	-	1,525,572	30,493
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	(17,865)	328,332	7,698	305,007
Total Net Assets	\$ (17,865)	\$ 596,379	\$ 1,533,269	\$ 486,558

The accompanying notes are an integral part of the financial statements.

Michigan

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 26,463	\$ 14,414	\$ 201,740	\$ 542,982
-	-	-	107,429
-	-	216	216
48,080	20,773	101,463	174,653
1,031	2,027	11,066	34,129
-	87	146	1,007,136
3,408	5,028	8,096	17,212
-	45,446	60,604	1,318,384
16,155	17,397	61,490	460,419
<u>95,137</u>	<u>105,173</u>	<u>444,822</u>	<u>3,662,560</u>
30,657	-	13,062	49,368
34,188	157,480	153,044	346,772
7,275	-	38,417	1,800,441
-	-	-	2,613,898
-	8,940	24,871	1,542,620
119,405	86,169	308,820	3,356,171
9,925	14,742	72,902	106,120
517,049	908,954	2,754,071	4,239,824
(222,588)	(309,542)	(973,311)	(1,533,178)
-	-	-	102,722
13,914	13,749	60,220	87,883
<u>318,300</u>	<u>627,904</u>	<u>1,913,882</u>	<u>3,003,371</u>
-	17,211	24,422	294,024
<u>\$ 604,962</u>	<u>\$ 1,002,876</u>	<u>\$ 2,921,341</u>	<u>\$ 16,669,225</u>
\$ -	\$ -	\$ -	\$ 1,548
49,087	37,394	123,140	279,894
577	200	2,210	46,180
4,055	6,590	21,633	1,215,397
1,360	14,173	2,222	119,595
9,389	6,350	39,100	57,612
-	567	10,268	101,737
<u>64,468</u>	<u>65,275</u>	<u>198,573</u>	<u>1,821,963</u>
-	-	2,613	2,613
153,145	288,435	712,290	7,735,404
14,882	22,420	38,438	1,542,264
<u>\$ 232,496</u>	<u>\$ 376,130</u>	<u>\$ 951,916</u>	<u>\$ 11,102,246</u>
\$ 190,363	\$ 347,613	\$ 1,265,360	\$ 1,940,459
43,033	10,797	151,897	205,728
3,698	5,659	25,377	316,717
-	45,593	18,788	1,620,446
-	-	39,085	39,085
-	50,750	154,149	204,899
135,372	166,334	314,769	1,239,647
<u>\$ 372,466</u>	<u>\$ 626,746</u>	<u>\$ 1,969,425</u>	<u>\$ 5,566,979</u>

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Authorities:					
Michigan Education Trust	\$ 49,864	\$ 153	\$ 26,934	\$ -	\$ (22,777)
Michigan State Housing Development Authority	519,075	162,217	381,733	-	24,876
Michigan Municipal Bond Authority	159,152	102,152	157,528	-	100,527
Non-Major	469,908	138,604	248,474	4,625	(78,205)
State Universities:					
Central Michigan University	299,039	195,389	31,399	1,767	(70,483)
Western Michigan University	420,818	257,467	53,959	2,008	(107,384)
Non-Major	1,301,183	756,214	168,125	19,995	(356,849)
Total	<u>\$ 3,219,038</u>	<u>\$ 1,612,196</u>	<u>\$ 1,068,152</u>	<u>\$ 28,395</u>	<u>\$ (510,295)</u>

The accompanying notes are an integral part of the financial statements.

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATE	NET ASSETS END OF YEAR
\$ -	\$ -	\$ -	\$ -	\$ (22,777)	\$ 4,913	\$ (17,865)
18,769	-	-	-	43,645	552,734	596,379
-	-	-	-	100,527	1,432,742	1,533,269
17,109	63,698	10,189	-	12,790	473,768	486,558
12,532	84,951	194	-	27,194	345,273	372,466
7,340	131,267	20,420	-	51,643	575,103	626,746
28,360	390,771	11,829	-	74,112	1,895,313	1,969,425
<u>\$ 84,110</u>	<u>\$ 670,687</u>	<u>\$ 42,633</u>	<u>\$ -</u>	<u>\$ 287,134</u>	<u>\$ 5,279,845</u>	<u>\$ 5,566,979</u>